

Press Release

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OFGEM TO REVIEW THE EFFECTIVENESS OF THE RETAIL ENERGY MARKET TO SEE IF FURTHER ACTION IS NEEDED TO PROTECT CONSUMERS

- **Latest analysis from Ofgem shows retail margins increasing from £65 to £90 after recent price rises**
- **Ofgem to review the effectiveness of the retail energy market to see if further action is necessary to protect consumers**
- **Ofgem to investigate energy companies' newly available retail accounts and the facts behind the numbers**

Ofgem's latest analysis of retail prices, published today, shows that the margin on a standard dual fuel tariff is now around £90, an increase of 38 per cent from September. Whilst Ofgem would expect efficient firms to make a profit, it wants clarity on behalf of consumers that the market is transparent and is working as effectively as possible.

This is why Ofgem will review the retail energy market to decide if further changes are needed to ensure the market works in the interests of consumers and to increase transparency in the energy market. As part of this review it will investigate the retail accounts, recently received by Ofgem under new licence requirements.

Ofgem's Chief Executive, Alistair Buchanan, said: "With Britain facing an investment bill of £200 billion over the next 10 years, consumers have the right to expect that the energy retail market is providing them with value for money. Our analysis published today shows an increase in company margins from £65 to £90 at a time of rising energy prices, which causes Ofgem to rightly ask if companies are playing it straight with consumers.

"The energy retail market can only be fully effective if consumers have confidence that the market is transparent and easy to take part in. So we will go beyond our usual quarterly reports on prices and do a comprehensive review of the retail market and our recent reforms from the consumers' perspective. We will also carry out a detailed investigation of the newly available retail accounts and the facts behind these numbers.

"Greater transparency in the market is good for consumers, investors and for the energy industry as a whole."

Since its Retail Market Probe in October 2008, Ofgem has secured a series of important reforms for customers to improve transparency and ensure fair play. This has secured some real benefits for consumers, including the removal of unjustified price differences, required standards of acceptable practice and improved consumer information, such as annual energy statements. As part of its review Ofgem will be looking at how effectively energy companies have implemented all of these reforms.

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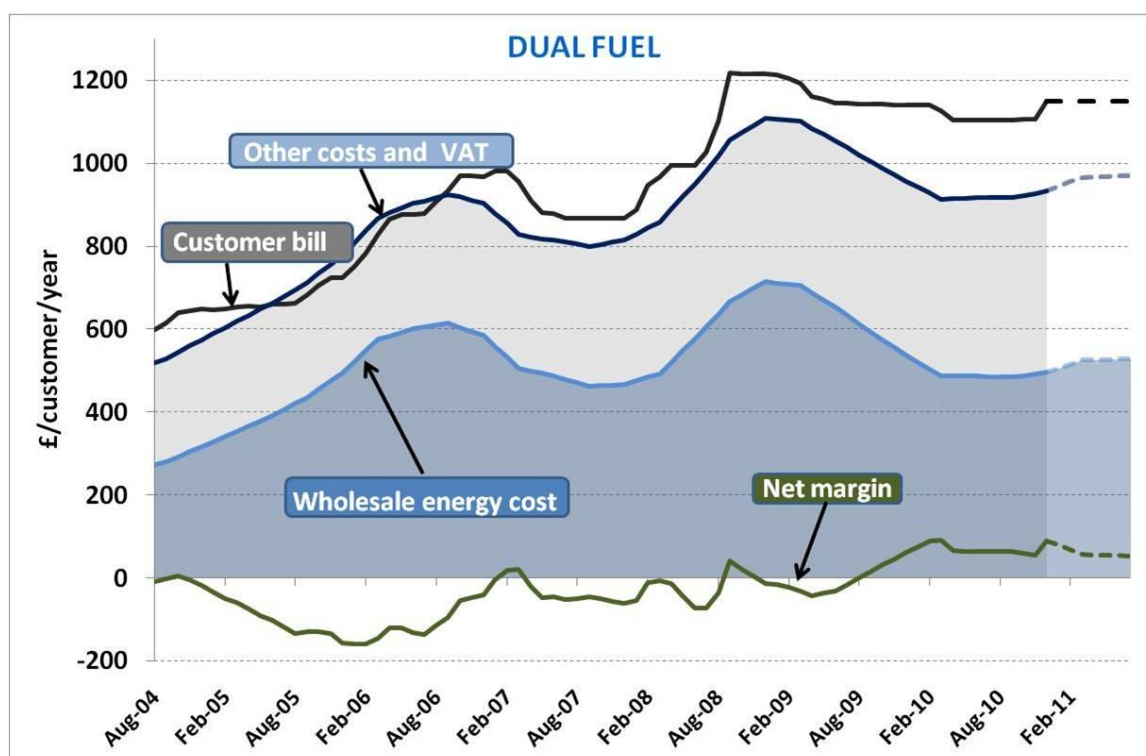
Notes to editors

1. Retail prices

Ofgem has today also published its latest Electricity and Gas Supply Market Report. Our indicator of the net profit margin from the supply of gas and electricity has increased since our last report. We estimate net margins for supplying a typical, standard tariff, dual fuel customer are approximately £90 per customer for the year from December 2010, up from £65 in our September report.

This figure for net margin incorporates the new, higher prices of the three Big 6 energy supply companies that have already announced price rises for this winter. Only one Big 6 supplier, EDF Energy, has promised to freeze prices between now and March 2011. The other two Big 6 suppliers have not yet made their pricing positions known.

Typical dual fuel customer bill, costs and net margin



2. Advice to consumers

While Ofgem is conducting its assessment consumers should still look to keep their energy costs as low as possible by looking at energy efficiency, payment options and whether they are still getting a good deal for their energy. In doing this they can use their annual energy statement, a new Ofgem reform currently being rolled-out, which gives them information about their current tariff and an

estimate of how much in pounds they will spend on energy for the next year, allowing a more accurate comparison to other deals.

A separate consumer factsheet "*Help with your winter energy bills: What you need to know*" giving tips on how to save on your energy bill has been published today on Ofgem's website, www.ofgem.gov.uk.

3. Probe reforms

Although Ofgem's Probe into the retail market found no evidence of anti-competitive behaviour, it found serious problems with the retail market that caused it to introduce the following reforms:

- rules to prevent unjustified price differences - this removed around £500 million of unjustified premiums and introduced clearer information on bills and Annual Energy Statements to improve transparency for consumers
- new Standards of Conduct setting out the level of service consumers can expect from energy suppliers, for example on tariff complexity. On this issue, we warned suppliers in July of this year that we wanted to see more progress in tackling this problem.
- tougher rules on sales and marketing - in September this year Ofgem announced an investigation into npower, Scottish Power, Scottish and Southern and EDF Energy to establish whether the firms were complying with tougher misselling rules, and
- new rules to allow more people who are in debt to switch supplier.

In addition to these reforms Ofgem is proposing that energy companies give consumers 30 days' notice of any price increases, and Ofgem is also looking at the terms and conditions that apply to the renewal of fixed-term energy deals.

More detailed information on the probe is available from the factsheet "*Helping domestic customers get the most out of the energy market,*" available from Ofgem's website via the following link:
<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/Supply%20Probe%20QA.pdf>

4. Terms of reference for Ofgem's review

Ofgem's review will comprise of:

- an assessment of the current state of the effectiveness of the retail market
- a review of progress energy companies have made on implementing Ofgem's reforms
- Ofgem's next report on retail and wholesale prices.

Ofgem aims to finish its review by March next year alongside its next Electricity and Gas Supply Market Report into retail and wholesale energy prices.

5. Ofgem's powers

Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, (the Authority) the regulator of the gas and electricity industries in Great Britain. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. The Authority also has enforcement powers under the Competition Act 1998, as well as powers to enforce consumer protection law, under the Enterprise Act 2002.

Any firm wanting to supply gas or electricity to customers, run a gas or electricity network or generate electricity has to be licensed by Ofgem. These Licences are issued by Ofgem under its powers in the Gas and Electricity Acts. Each licence comes with a series of obligations both to customers and to the industry that companies must fulfil.

Should Ofgem find that a licence breach or Competition Act infringement has occurred, it has the power to impose large financial penalties, of up to 10 per cent of turnover.

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